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C O N F I D E N T I A L SECTION 01 OF 02 BEIJING 001080

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TAGS: [ECON](#) [ETRD](#) [PGOV](#) [PREL](#) [TW](#) [CH](#)  
SUBJECT: CROSS-STRAIT FTA A POSSIBILITY?

REF: A. BEIJING 691  
[1](#)B. TAIPEI 416  
[1](#)C. TAIPEI 415  
[1](#)D. TAIPEI 360

Classified By: Economic Minister Counselor Robert S. Luke. Reasons 1.4  
b/d

[1](#)1. (C) Summary. Taiwan is intent on negotiating with Beijing a comprehensive Economic Cooperation Framework Agreement (ECFA), equivalent to an FTA, according to a contact who met recently with top officials from both sides. Beijing is amenable to reaching a deal with Taipei that will advance cross-strait economic linkages. Taiwan officials suggested an ECFA would be rolled out in stages, with an "early harvest" that would include reduced tariffs on select Taiwan exports to the mainland that would be otherwise hurt by the initiation on January 1, 2010 of the China-ASEAN FTA. Taiwan officials said a more comprehensive tariff and non-tariff agreement would be pursued to go into effect by 2012, and a services agreement by 2014. Economic modeling is underway to show what benefits both sides could reap from an ECFA. Beijing officials told our contact the PRC is motivated by "love of country" to ink a deal whereas Taiwan's motivation stems from fears of being marginalized in its economic relations with both the mainland and the region. End Summary.

[1](#)2. (C) The PRC and the Ma administration seem intent on pursuing a comprehensive ECFA, equivalent to an FTA, despite protests from the opposition Democratic Progressive Party (DPP), Peterson Institute for International Economics Visiting Fellow (and former Clinton Administration National Economic Council staffer) Daniel H. Rosen told EmbOffs April

[1](#)13. Rosen, who is conducting a study on a potential ECFA, recently met with top ranking officials in Taiwan and Beijing to discuss this subject, including Taiwan Vice President Vincent Siew, P.K. Chiang, Chairman of the quasi-government Straits Exchange Foundation (SEF) in charge of negotiating with Beijing, and, in Beijing, with Taiwan Affairs Office Deputy Chairman Sun Yafu.

Comprehensive Is Key  
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[1](#)3. (C) Rosen stated PRC and Taiwan officials emphasized the need for a comprehensive agreement to be phased in over time.

Over the short term, the two sides would focus on establishing a framework for the negotiations and completing an "early harvest" agreement by January 1, 2010. The latter will allow Taiwanese companies to export goods to the mainland under the same reduced tariff terms negotiated under the China-ASEAN FTA to which Taiwan is not a party (ref. A). Without an early harvest, Taiwan's petrochemical, textile, auto parts, electronic components and machinery exports to China will be subject to higher tariffs than exports from ASEAN nations, Rosen explained.

[1](#)4. (C) Over the longer term, a more comprehensive tariff and

non-tariff agreement would be completed by 2012, with a services agreement completed by 2014. Rosen said both sides want the final product to cover tariff and non-tariff barriers, investment, services and trade, financial cooperation, intellectual property rights, dispute resolution, and trade safeguards.

"KMT Blew It"

15. (C) The public controversy in Taiwan surrounding the ECFA is largely due to the Kuomintang's (KMT) "clumsy" management of public perception, Rosen opined. The Taiwan authorities tried to keep details of its plans and goals for the agreement close hold, he said. The DPP took advantage of this, whipping up public opposition with suggestions that an ECFA would lead to Taiwan being economically and politically subsumed by the mainland. Taiwan officials have only recently started to do public outreach to explain the goals of an agreement but such efforts have had limited effect thus far. "The KMT blew it," Rosen lamented.

Economic Modeling in the Works

16. (C) Rosen noted that he was surprised to learn from his meetings in Taiwan that no reliable economic modeling has yet been done to forecast what benefits both sides could reap from an ECFA. Numbers cited by the press are based on a faulty 2005 study, he said. President Ma understands the economic imperative of an agreement, however, and Taiwan recently commissioned a study to model potential results.

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The Peterson Institute is also modeling an ECFA and expects to have results sometime in May. Rosen promised to share those results with us when they become available.

What Motivation?

17. (C) Rosen's mainland interlocutors told him the PRC and Taiwan have very different motivations for completing an economic agreement. Beijing's motive is subjective, they claimed, arising from a "love of country." They said Beijing wants Taiwan's commitment to the principle of "normalization" of the economic relationship, but will not demand any specific concessions from Taipei in the short-term. Taiwan, however, fears being marginalized in its economic relations with both the mainland and the region, they claimed. Rosen believes that, if the two-sides cannot sign an early harvest agreement by the January 1, 2010 deadline, Beijing would still find a way, through decree or otherwise, to reduce tariffs on Taiwan exports to the PRC to prevent that marginalization.

Comment

18. (C) Rosen is a well-respected and well-connected scholar with close relations to key officials on both sides of the strait. His overall impression was that the Taiwan authorities want to move quickly towards an ambitious deal and that China welcomes the opportunity to advance cross-Strait economic integration. While there seems to be no hesitation on Beijing's part, the politics in Taiwan on any agreement, however, remain a wildcard.  
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